

**MICHIGAN HOUSE OF REPRESENTITAVES**  
**Agriculture Committee**

April 26, 2005

Testimony:

Good afternoon, Chairman Nitz and Committee Members. I am Richard Leach, Director of Government Relations for Michigan Sugar Company, a grower-owned, cooperative, representing 1,200 farm families who grow sugarbeets in 21 of Michigan's 83 counties. I thank you for the opportunity to testify this afternoon in support of House Bill 4558.

For those Committee Members who are new to this issue, on February 12, 2002, Michigan Sugar Company was purchased out of bankruptcy from Imperial Sugar Company of Sugar Land, Texas, for \$63.5 million. The total price was financed as follows:

- \$26 million in grower equity
- \$14 million debt held by Imperial Sugar
- \$18.5 million in industrial development bonds assumed by the Cooperative, due as follows: \$9 million in 2015 and \$9.5 million in 2025.
- \$5 million State of Michigan loan. Without this State loan, Michigan Sugar Company would have been closed.

On October 1, 2004, Monitor Sugar Company's growers joined with Michigan Sugar Company and provided \$12.5 million in grower equity for the purchase of Monitor Sugar Company from its South African owner who had threatened to close the factory. An additional \$27.5 million of long-term debt was provided by a lending consortium to complete the \$40 million deal.

In a little over two years, Michigan's sugarbeet growers, with the help of the State of Michigan, have created the third largest beet sugar cooperative in the United States, providing full-time income for 450 families and 1,750 seasonal jobs. The Cooperative generates \$300 million of base economic impact in the rural and urban areas of Mid-Michigan and the Thumb of Michigan.

The years 2002 and 2003 saw record-breaking sugarbeet yields and provided a good return on investment to the grower-owners of Michigan Sugar Company. The 2004 crop, as harvested, was another record breaker; however, an unusually warm fall and winter caused spoilage in the storage piles that equated to a \$27 million loss. Being a cooperative means the loss is borne by the growers-owners.

To add insult to injury, energy costs have sharply increased. Natural gas prices are up 40% since 2002. Will energy costs go back down? Probably not.

Will we see pile spoilage at this magnitude again? We hope not, but we cannot control the weather. We have not seen spoilage like this in the 99-year history of Michigan Sugar Company. We have learned by this experience and will be implementing additional risk management practices for the 2005 crop. The 2005 crop is fully planted and off to a good start, despite the cool weather.

The State loan is a \$5 million, non-interest bearing loan, due to be repaid by February 12, 2007; however, the loan document (not the law) sets forth a repayment schedule of \$250,000 each quarter, beginning April 1, 2005 (\$1 million per year), with a \$3 million balloon payment in February of 2007. Michigan Sugar Company is in sound financial condition and has made the first \$250,000 payment that was due April 1, 2005.

Michigan Sugar Company's growers are not asking the State to forgive the loan, but we would like to ask to modify the repayment schedule as follows:

- Reduce the quarterly payments 50%, to \$125,000 (\$500,000 per year)
- Extend this schedule until the loan is paid in full (approximately 10 years)

These modifications will strengthen the Co-op's cash flow and allow us to reinvest in energy saving projects to help offset the steeply rising costs of energy keeping Michigan Sugar Company a strong contributor to the State's economy.

I respectfully ask this Committee to pass House Bill 4558 with substitute language.

Thank you.